

Message Text

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C O N F I D E N T I A L SECTION 01 OF 04 LONDON 11486

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E.O. 11652: GDS
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SUBJECT: BRITISH VOLUNTARY RESTRAINT ARRANGEMENTS WITH
JAPAN; BRITISH IDEAS ON SAFEGUARDS
NEGOTIATIONS

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1. CONVERSATIONS BETWEEN GENEVA, WASHINGTON AND EMBASSY
OFFICERS AND GRAY, SHARP AND ROBERTS OF THE UK DEPARTMENT
OF TRADE LAST WEEK PRODUCED A CLEARER PICTURE OF THE WAYS
IN WHICH BRITAIN HAS ARRANGED FOR RESTRAINTS ON JAPANESE
EXPORTS TO THE UK, AND OF BRITISH VIEWS ON THE POSSI-
BILITIES OF NEGOTIATION WITHIN THE MTN OF A REVISED GATT
SAFEGUARD CLAUSE.

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2. THE HISTORY OF BRITISH-JAPANESE VRAS BEGINS WITH THE
PERIOD WHEN BRITAIN LIBERALIZED ITS TREATMENT OF JAPANESE
TRADE IN GENERAL. AT THAT TIME--AROUND 1959--THE OLD
DISCRIMINATORY REGIME WAS ABANDONED WITH TWO MAIN EXCEP-
TIONS. FIRST, THE UK PRESERVED THE DISCRIMINATORY SAFE-
GUARD CLAUSE; SECOND, THE QUOTAS ON TWO PRODUCTS, POTTERY

AND STAINLESS STEEL TABLEWARE, WERE CONVERTED INTO VOLUNTARY RESTRAINT ARRANGEMENTS. THESE TWO ARRANGEMENTS HAVE BEEN RENEWED ANNUALLY BY THE JAPANESE.

3. AROUND 1972 THE UK GOVERNMENT BECAME WORRIED ABOUT THE IMPACT OF IMPORTS FROM JAPAN UPON SOME SENSITIVE INDUSTRIES. IT SEEMED BEST TO THE BRITISH GOVERNMENT TO HANDLE THE PROBLEM WITH INDUSTRY-TO-INDUSTRY TALKS. HOWEVER, IN EACH CASE THESE DISCUSSIONS WERE LAUNCHED BY DIPLOMATIC INITIATIVES. THE FIRST FRUITS OF THESE EFFORTS WERE VRAS ON TV SETS AND BALL BEARINGS (AGREED TO ABOUT FOUR YEARS AGO). ABOUT TWO YEARS AGO, SIMILAR INTER-INDUSTRY TALKS ON AUTOMOBILES PRODUCED ANOTHER VRA. IN ADDITION TO THESE PURELY BILATERAL ARRANGEMENTS, THE COMMUNITY AS A WHOLE HAS A VRA ON "BULK STEEL" AND NEGOTIATED SUBSIDIARY ARRANGEMENTS FOR THE UK ON SEVERAL SPECIAL STEELS. VRAS NOW COVER ABOUT ONE-THIRD OF BRITAIN'S IMPORTS FROM JAPAN.

4. THESE ARRANGEMENTS HAVE BEEN COINED, OUR BRITISH SOURCES SAID, IN INCREASINGLY GENERAL TERMS. IN EACH CASE THEY ARE RENEWED ANNUALLY. THEY ARE NOT DESCRIBED AS "AGREEMENTS" TO AVOID CONFLICT WITH BRITISH FAIR TRADE LEGISLATION, AND WITH COMMUNITY LEGISLATION. THE ARRANGEMENTS INVOLVE EXCHANGE OF INFORMATION BY THE TWO

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SIDES, PLUS "FORECASTS" BY THE JAPANESE SIDE. THESE FORECASTS ARE OFTEN EXTREMELY VAGUE AND GENERAL. FOR EXAMPLE, THE FORECAST ON AUTOMOBILES READS SOMETHING LIKE "THE JAPANESE MOTOR INDUSTRY DOES NOT EXPECT SIGNIFICANTLY TO INCREASE ITS SHARE OF THE UK MARKET." (THIS SHARE IS ABOUT 9.5 PERCENT.) NEVERTHELESS, AS A RESULT OF THE PRESSURES THAT HAVE BEEN BROUGHT ON THE JAPANESE, OFTEN AT MINISTERIAL LEVEL, THE DEPARTMENT OF TRADE BELIEVES THAT THE JAPANESE ARE GENUINELY EAGER NOT TO BE BLAMED FOR DISRUPTING WORLD, AND UK, MARKETS. THE JAPANESE SEEM TO PREFER ENCOURAGING THEIR INDUSTRIES TO RESTRAIN EXPORTS RATHER THAN TO ENTER INTO FORMAL BILATERAL QUOTAS. THIS TECHNIQUE DOES, ASIDE FROM THE VAGUENESS CITED, INVOLVE ANOTHER DEFECT FROM THE BRITISH POINT OF VIEW: THE ARRANGEMENTS ARE ALL ANNUAL, CREATING A CERTAIN HAND-TO-MOUTH FEELING; THE BRITISH CONTRAST THIS UNFAVORABLY WITH THE THREE YEAR TERM OF THE OMA NEGOTIATED BY THE UNITED STATES FOR JAPANESE TVS.

5. ON THE OTHER HAND, THE INFORMAL, OVERTLY NONGOVERNMENTAL NATURE OF THE ARRANGEMENTS HELPS AVOID TROUBLE WITH BOTH THE OFFICE OF FAIR TRADING IN THE UK AND THE

BRUSSELS COMMISSION--EVEN THOUGH THE BRITISH GOVERNMENT
HAS IN EVERY CASE TAKEN CREDIT FOR THE ARRANGEMENT. OUR

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BRITISH SOURCES SAID THAT THEY HAD BEEN CAREFUL TO KEEP
BRUSSELS INFORMED OF WHAT THEY WERE DOING. THE BRUSSELS
COMPETITION DIRECTORATE HAS SEEMED RELATIVELY UNCON-
CERNED BECAUSE WHAT SUBSTANTIVELY WAS INVOLVED WAS
JAPANESE "FORECASTS." BRUSSELS SENSITIVITIES ARE
GREATEST WITH REGARD TO GOVERNMENT-TO-GOVERNMENT NEGO-
TIATIONS--WHICH EXPLAINS WHY A FORMAL DEAL LIKE THE U.S.
TV OMA IS IMPOSSIBLE.

6. TO SUM UP, IN THE DOT VIEW, THERE ARE THREE REASONS
FOR THE FORMAT CHOSEN FOR THESE VRAS: (A) THE JAPANESE
THEMSELVES PREFER INDUSTRY-TO-INDUSTRY ARRANGEMENTS;
(B) THESE AVOID THE QUESTION OF COMMUNITY COMPETENCE;
(C) IF THE UK INDUSTRY CONDUCTS THE ACTUAL NEGOTIATIONS,
IT IS ALMOST DEBARRED FROM COMPLAINING ABOUT THE RESULTS.

7. OUR BRITISH SOURCES WERE VAGUER REGARDING HOW THE
JAPANESE ENFORCED THEIR SIDE OF THE BARGAIN. OBVIOUSLY
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THE INDICATED LEVEL OF EXPORTS HAS TO BE SHARED OUT BY THE JAPANESE FIRMS CONCERNED. IN THE TWO PRINCIPAL AREAS OF TELEVISION SETS AND AUTOMOBILES, THERE IS A JAPANESE EXPORT CARTEL, BUT THE BRITISH DON'T KNOW WHETHER THE DIVISION OF THE MARKET IS ORGANIZED AND DIRECTED BY THE GOVERNMENT OR WHETHER THE FIRMS WITHIN THE INDUSTRY DECIDE THEMSELVES HOW TO SHARE IT OUT.

8. AS A GENERAL OPERATING PROCEDURE, WHEN AND IF A BRITISH INDUSTRY HAS A JUSTIFIABLE COMPLAINT ABOUT JAPANESE COMPETITION, THE UK DEPARTMENT OF TRADE WILL SEND A MEMORANDUM TO MITI ASKING MITI TO USE ITS GOOD OFFICES TO SEE THAT THE JAPANESE AND UK INDUSTRIES GET TOGETHER TO AVOID MARKET DISRUPTION. THE BRITISH HAVE NOT DONE THIS IN MANY CASES, BUT THEY HAVE NEVER BEEN REBUFFED. THE BRITISH GOVERNMENT DOES NOT HAVE A REPRESENTATIVE PRESENT IN THE INTER-INDUSTRY DISCUSSIONS THAT ENSUE, BUT IT SEEKS TO ENSURE THAT THE INDUSTRY NEGOTIATOR ON THE BRITISH SIDE IS CAPABLE, AND IT RECEIVES FULL DEBRIEFINGS AS THE NEGOTIATIONS PROCEED.

9. THE BRITISH HAVE NOT, OF COURSE, REPORTED THESE ARRANGEMENTS TO GATT. SOME DOT OFFICIALS TAKE THE LEGALISTIC STAND THAT SINCE THEIR KNOWLEDGE OF THE ARRANGEMENTS IS ONLY SECOND HAND, THEY NEED NOT DO SO. FOR THE TIME BEING THEY WOULD NOT LIKE TO ABDICATE THE BRITISH ROLE IN SUCH ARRANGEMENTS TO THE EC COMMISSION. WHILE THIS TRANSFER MAY EVENTUALLY COME ABOUT, THEY VIEW IT AS POLITICALLY "EASIER" IN A PROTECTIONIST PERIOD TO KEEP CONTROL IN LONDON. THEY NOTED THAT ONE BRITISH INDUSTRY HAD BEEN ASKED WHETHER IT WOULD LIKE ITS CASE TO BE TRANSFERRED TO THE COMMISSION; THE RESPONSE WAS UNENTHUSIASTIC. OF COURSE, AS IN THE STEEL CASE, IT IS POSSIBLE

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FOR THE COMMISSION TO NEGOTIATE A RESTRICTION ON BEHALF OF THE UK BUT BECAUSE OF THE POSSIBLE REPERCUSSIONS ON OTHER COMMUNITY MARKETS, THE COMMISSION HAS IN SUCH CASES TO CONSULT OTHER MEMBER STATES.

10. FURTHERMORE, THE BRITISH TECHNIQUE DIFFERS FROM THAT PREFERRED BY SOME OTHER EC MEMBER STATES. THE FRENCH AND EVEN MORE THE ITALIANS HAVE PRESERVED DISCRIMINATORY QRS APPLICABLE TO JAPAN (FOR EXAMPLE, ITALY LIMITS JAPANESE CAR IMPORTS TO 2,000 PER YEAR).

THE GERMANS ARE NOT SO WORRIED ABOUT JAPANESE COMPETITION. THE BENELUX STATES HAVE, HOWEVER, FOLLOWED A PATTERN SIMILAR TO THE UK IN THE CASE OF CONSUMER ELECTRONICS.

11. BRITISH OFFICIALS ARE WORRIED NOT JUST ABOUT JAPAN BUT ABOUT OTHER EFFICIENT EAST ASIAN PRODUCERS. THEY ARE NOT SURE THAT THE SAME TECHNIQUE WILL WORK IN OTHER CASES. THEY CAN FREELY IMPOSE QUOTAS AGAINST TAIWAN SINCE IT IS NOT A GATT MEMBER. THE CASE OF KOREA IS THORNIER. ITS EXPORTS ARE STILL ON A RELATIVELY SMALL SCALE BUT KOREA IS APPROACHING A CAPABILITY OF DISRUPTING OVERSEAS MARKETS AND BRITISH ANXIETIES ARE GROWING. IN PARTICULAR, BRITAIN HAS RAISED WITH THE KOREANS WORRIES ABOUT FOOTWEAR AND BLACK AND WHITE TV SETS. WHILE THE BRITISH THINK THE KOREANS MAY BE CAPABLE OF RUNNING AN EXPORT RESTRAINT PROGRAM LIKE THAT OF THE JAPANESE, NO ARRANGEMENTS HAVE YET BEEN NEGOTIATED.

12. THE UNDERLYING BRITISH ATTITUDE TOWARDS ITS RESTRAINTS ON JAPANESE EXPORTS AND TOWARD THE GATT NEGOTIATIONS WAS MOST AUTHORITATIVELY PUT BY ROBIN GRAY, THE DOT'S DEPUTY SECRETARY. GRAY NOTED THAT THE AMERICAN

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APPROACH TO TRADE HAD ALWAYS STRESSED NONDISCRIMINATION AND OPPOSED DISTORTIONS TO FREE COMPETITION. THE U.S. WAS ALSO TIED TO A JURIDICAL "RULE OF LAW" APPROACH. FINALLY, THE U.S. HAD AN ANTITRUST LAW. THE BRITISH ON THE OTHER HAND TENDED TO HANDLE TRADE RESTRICTIONS MORE INFORMALLY.

13. GRAY DENIED THAT WHAT THE BRITISH WERE UP TO REPRESENTED A NEW POLICY. BRITAIN, HE SAID, DID NOT HAVE A NEW THRUST OR STRATEGY. IT WAS MUDDLING ITS WAY THROUGH. BRITAIN HAD HAD TO ALTER ITS PRACTICES IN ORDER TO CONTAIN PROTECTIONIST PRESSURES. AFTER YEARS OF DISMANTLING ITS DISCRIMINATION AGAINST JAPAN AND OF GIVING TARIFF-FREE ACCESS TO COMMONWEALTH SUPPLIERS, THE UK HAD HAD TO REVERSE ENGINES. BRITAIN HAD DISCOVERED THAT ITS INDUSTRY WAS NOT COMPETITIVE WITH ASIATIC INDUSTRY--AND HE DIDN'T THINK IT EVER WOULD BE.

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14. DURING THE LAST TWO YEARS OF RECESSION THE WEAKNESS OF BRITISH INDUSTRY HAD BECOME MORE EVIDENT BUT THE BRITISH GOVERNMENT WISHED TO PRESERVE AN OPEN, LIBERAL WORLD OR AT LEAST A CLEAN NORTH ATLANTIC. BUT BRITAIN WAS LESS AND LESS SURE THAT IT COULD LIVE IN A WORLD IN WHICH DEVELOPING COUNTRIES OFTEN HAD TARIFF FREE ACCESS. THE INTERNATIONAL ECONOMIC MEASURES TAKEN BY NIXON IN 1971 WERE, IN GRAY'S VIEW, ESSENTIALLY ON BEHALF OF U.S. MANUFACTURING INDUSTRY AND AIMED AT JAPAN. THE JAPANESE HAD GOT THE MESSAGE: THEY HAD TAKEN NOTE OF THE LIMITS OF THEIR SHARE OF THE U.S. MARKET. THIS WAS AN EXAMPLE FOR BRITAIN TO FOLLOW.

15. BRITAIN WAS IN FACT TAKING SELECTIVE ACTIONS, FOR EXAMPLE, USING ANTIDUMPING ACCUSATIONS PRETTY BLATANTLY TO REDUCE IMPORTS, PARTICULARLY FROM EAST BLOC COUNTRIES (THE THREAT WAS, PUT UP YOUR PRICES OR WE'LL PUT ON A DUTY). BY SUCH MEANS BRITAIN HAD DEALT WITH THE PROBLEMS OF IMPORTS OF FOOTWEAR, SUITS AND CLOTHING FROM EASTERN EUROPE. IN THE CASE OF STEEL, BRITAIN HAD THREATENED ANTIDUMPING ACTION AGAINST JAPAN AND INDEED HAD IMPOSED PROVISIONAL DUTIES WHICH LED TO AN UNDERTAKING ON QUANTITIES AND PRICES. IT WAS BECOMING HARDER TO GET THE JAPANESE TO "COOPERATE" ON ANTIDUMPING BUT JAPAN WOULD STILL PAY QUITE A PRICE TO AVOID PUBLICITY.

16. BUT THE MAIN DEVICE WAS THE INDUSTRY-TO-INDUSTRY ARRANGEMENTS. HE NOTED THAT THESE WERE OF NO POLITICAL USE TO THE GOVERNMENT UNLESS IT COULD TALK ABOUT THEM.

IN ADDITION TO THE ARRANGEMENTS ALREADY REACHED, HE REFERRED TO NEGOTIATIONS IN PROGRESS ON SOCKET SETS AND COMMERCIAL VEHICLES.

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17. THE CARTEL ASPECTS OF THESE ARRANGEMENTS POSED NO PROBLEMS FOR THE BRITISH, ALTHOUGH THEY MIGHT FOR THE COMMUNITY. THE BRITISH GOVERNMENT COULD, IF NECESSARY, ALWAYS EXEMPT A BRITISH INDUSTRY FROM THE NORMAL LEGAL RESTRICTIONS ON CARTEL BEHAVIOR. IN ANY CASE, WHILE THE BRITISH WORRIED ABOUT THE IMPACT OF THEIR ACTIONS ON THE INTERNATIONAL TRADING STRUCTURE, ANTITRUST CONSIDERATIONS WERE NOT GIVEN MUCH WEIGHT. THE EC COMMISSION WAS SOMEWHAT CONCERNED ABOUT ANTITRUST. HOWEVER IN THE CASE OF STEEL THERE WAS THE DAVIGNON PLAN FOR RESTRUCTURING PLUS A FORMAL AGREEMENT WITH JAPAN, AND THE COMMUNITY WAS "WORKING ON" SOUTH AFRICA, SPAIN, AUSTRALIA AND KOREA. GRAY SAID NOBODY KNEW HOW ALL THIS SQUARED WITH THE EC'S COMPETITION POLICY, WHICH IN ANY EVENT, UP TO NOW, HAD NOT HAMPERED THE STEEL DEVELOPMENTS. HE THOUGHT THAT WHENEVER AN INDUSTRY PROBLEM WAS BIG ENOUGH, EC COMPETITION POLICY WOULD BE OVERRIDDEN.

18. TURNING TO THE QUESTION OF "REGULARIZING" SAFEGUARD PRACTICES, GRAY SAID HE DID NOT THINK GATT ARTICLE XIX WAS NEGOTIABLE. GERMANY DID NOT WANT TO DO THIS. HE DID THINK SOMEHOW THERE HAD TO BE MORE OPENNESS AND SURVEILLANCE. ON THE OTHER HAND, HE HAD DOUBTS ABOUT TIME LIMITS ON RESTRICTIONS, IN VIEW OF HIS BELIEF THAT ASIAN COMPETITION COULD NEVER BE ADJUSTED TO.

19. IN AN EARLIER CONVERSATION, SHARP HAD TAKEN A MORE NUANCED POSITION ON THE POSSIBILITIES OF NEGOTIATING REVISIONS IN THE SAFEGUARD CLAUSE. BRITISH MINISTERS, HE SAID, VIEW SELECTIVITY AS ESSENTIAL TO ANY REVISION. THE AIM OBVIOUSLY WOULD BE TO LEGITIMIZE DISCRIMINATION AGAINST JAPAN AND OTHER COMPETITIVE ASIAN SUPPLIERS. HOWEVER, ASIDE FROM THE DIFFICULTY OF PERSUADING THE

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JAPANESE TO ACCEPT SUCH A REVISION, THE UK, AND, HE IMPLIED, THE EC, WOULD NOT BE WILLING TO GIVE VERY MUCH IN TERMS OF SATISFACTORY COMPENSATING REVISIONS IN THE SAFEGUARD CLAUSE. FOR EXAMPLE, HE THOUGHT THEY WOULD NOT WANT STIFFER CRITERIA FOR SELECTIVE THAN FOR MFN SAFEGUARDS. WHILE THE COMMUNITY HAD AT ONE POINT TALKED OF INCREASED SURVEILLANCE, HE FELT THERE WAS LITTLE REAL WILLINGNESS TO GO THIS ROUTE. COVERAGE ALSO WAS A PROBLEM ALTHOUGH THERE IT MIGHT BE POSSIBLE TO NOTIFY GOVERNMENT SANCTIONED VRAS.

20. BUT EVEN FOR THESE MARGINAL COMMUNITY GESTURES, THE COMMUNITY WOULD WANT COMPENSATING CONCESSIONS BY THE U.S., FOR EXAMPLE ON CUSTOMS VALUATION, AND HE RECOGNIZED THAT ON THE OTHER HAND THE U.S. WOULD HAVE TO VIEW THE SAFEGUARD SETTLEMENT IN THE CONTEXT OF THE OVERALL NEGOTIATION. THE BRITISH AND, HE SUGGESTED, EUROPEAN OBSESSIONS WITH JAPANESE AND ASIAN COMPETITION MADE IT CONFIDENTIAL

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UNLIKELY THAT A RADICAL EFFECTIVE REDUCTION IN TARIFFS WAS ACCEPTABLE. HE PERSONALLY TALKED OF HOLDING EXCEPTIONS TO A MINIMUM BUT THEN REDUCING TARIFFS BY ONLY A SMALL MARGIN. IN SUM, HE WAS SUGGESTING THAT IF THE SAFEGUARD CLAUSE WERE TO BE MODIFIED, IT WOULD BE IN THE CONTEXT OF MODEST, NOT MASSIVE, LIBERALIZATION; AND HE RECOGNIZED THE DIFFICULTIES OF SELLING SUCH A PACKAGE.

21. COMMENT. BRITISH OFFICIALS ARE RELATIVELY

SATISFIED WITH THEIR INFORMAL EFFORTS TO STEM THE TIDE
OF ASIAN COMPETITION. THEY DO NOT, THEREFORE, HAVE
ANY PASSIONATE INTEREST IN FORMAL, CODE-TYPE SOLUTIONS
TO THE PROBLEM; INDEED, THEY SEE SUCH SOLUTIONS AS
ENTAILING CERTAIN COSTS AS WELL AS BENEFITS.

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